Working Papers

MAKING MANAGERS MORE EFFECTIVE: APPLICATIONS OF STRATEGIC MANAGEMENT*

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This paper reviews a family of procedures, grouped under the umbrella term strategic management, that helping managers to get to their important objectives. Strategic management is the process by which managers set an organization's (or several organizations') long-term course, develop plans in the light of internal and external circumstances, and undertake appropriate action to reach those goals. Although strategic management as a conscious enterprise emerged first in the private, profit-making sector, managers in other sectors are beginning to use its methods to try to improve their effectiveness.

This literature review is commissioned by the Implementing Policy Change (IPC) project, which helps developing country managers to apply a strategic management approach to policy change. The goal of the paper is to identify the main elements of the strategic management framework, and to weigh their applicability for ventures such as the IPC project. We will start by reviewing the evolution of strategic

management, and evaluate the strategic management paradigm for explaining organization success. Then we will go over the many uses of strategic management methods, before turning in the concluding sections of the paper to a description of those methods themselves.

The "Field" of Strategic Management

Strategic management is not a field or discipline, strictly speaking—it is part of the study of organizations (Snow, 1986). Strategic management is meant to be useful for managers and tends to see organizations from the top downward, from the manager's point of view. Its main teachings are four: First, look to the future. Know what markets you are in and want to be in. Second, pay ongoing attention to external factors—technological, economic, political, and social—that affect the organization's ability to get where it wants to go. Third, establish and keep a match among those external factors and internal organization variables— its finances, employees, special skills, and

so on. Fourth, strategic management is iterative. It is not something that can be done at the front end of an operation and then dropped; it entails feedback and learning.These teachings may seem like common sense, but that does not make them easy to follow. Because managing strategy (the organization game plan) is a process, not an event, it demands action and follow-up. Determined strategic managers always are trying to build on the organization's strengths and capitalize on favorable circumstances, while minimizing weaknesses and overcoming threats to the organization. Quantum changes in strategy are rare, but fine-tuning takes place continuously, whenever new information is received.

As a self-identified area of inquiry, strategic management is still young. The first major conference devoted to the subject was only held in 1977 at the University of Pittsburgh. The Strategic Management Journal and the Journal of Business Strategy each published their first issue three years later. Michael Porter's landmark study, Competitive Strategy, appeared in 1980. The Academy of Management, the professional association of business school teachers, organized its Business Policy and Strategy division at around the same time.

Despite its youth, strategic management has bred a large (though repetitive) and coherent (though thin) practical literature. The strategic management paradigm remains a simple one, however (Daft and Buenger, 1990). Distinct schools of thought, equivalent to the human relations and scientific management view points in organization theory, or to Keynesians and monetarists in macroeconomics, have yet to emerge. Most of strategic management's advice still involves simple check lists, typologies, and rules of thumb. These have been gleaned from anecdotes and casual observation as often as from rigorous study.

History of Strategic Management

To understand what strategic management is about, it is helpful to look at its history and review its core ideas. Strategic management grew out of both teaching and research in business administration. On the teaching side, the roots were the business policy or general management classes that by the 1960s most business schools required as the "capstone" course at the end of the business curriculum. These courses directed students' attention to the "big picture," and tried to break down the conventional boundaries among administrative functions (marketing, finance, personnel, and so on). The focus was decision making by top executives in Fortune 500 companies.

As officers charged with broad responsibility for the well-being of whole companies, top executives naturally spend much of their time strategizing—that is they concern themselves with the general direction and long-term policy of their enterprises. Business policy professors thus were forced to try to think systematically about companies' strategies, which eventually led to them into the self-styled study of strategic management (Schendel and Cool, 1988).[1]

On the research side, the area had its genesis in the finding of business case studies in the 1950s and 1960s that companies in the same industry could succeed following different approaches, while other companies that followed approaches similar to each other were not equally successful (Hammermesh, 1990: 292). Orthodox economic theory could not explain these anomalies; corporate strategy could. For example, several companies might do well in one line of trade by strategies of pursuing different market niches. Other companies might fail with similar strategies because the strategies did not match the unique assets and talents these other firms brought to bear.

What is this powerful force called corporate strategy? One of strategic management's pioneers, Kenneth Andrews of Harvard Business School, offers the following widely used definition:

> . . .corporate strategy is the pattern of major objectives, purposes, or goals and essential policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be (Andrews, 1971: 28).

Subsequent writers have argued that you can substitute the word "organization" for "corporate" in this definition, and apply the notion of strategy to any formal human collectivity.

The analogy to military campaigns is obvious. Just as generals prevail on the battlefield by superior planning and logistics, so do business leaders prevail in the marketplace. Like armed combat, the contest for customers and profits brings organizations into conflict with one another. Also like armed combat, there are winners and losers in the economic arena, as determined by market share and return on investment. Victory goes to the side that is the best prepared.

Whatever the context, most views of strategy share four underlying themes. First, strategy is forward-looking and instrumental. It combines the ends for which the organization is striving and the means (tactics) of getting there. Second, strategy is cross-

cutting and holistic. It affects the health of the entire organization and involves all the organization's parts. Third, strategy entails the deployment of large amounts of resources and thus is not something to be taken lightly. There may be no turning back once a strategic decision has been made. Fourth, is the assumption that a good strategy will lead to higher-than-average performance. It is believed that without a roadmap to follow, no organization can flourish for long. Success is usually the result of being "proactive," of trying to influence events and not just reacting to them.

The basic choices of strategy are few. According to Porter (1980) there are but three generic approaches in the private sector. Companies may choose to compete based on lower cost, aiming at a mass market and underselling the competition. Or they may decide to follow a differentiation strategy, also aimed at a broad market but delivering a product or service that is seen as unique. Companies may then charge a premium. Finally, firms may try a focus strategy, which is one that concentrates on a particular geographic or demographic market and attempts to serve only this niche, to the exclusion of others. Yet within these three generic types an infinite variety of strategic options is possible. Strategic management offers a menu of processes by which to choose and exercise these options.

To understand what makes any given strategy "work" (i.e., confer a sustainable advantage), scholars borrow from many fields. One source of important ideas is the industrial organization branch of microeconomics, which emphasizes the effects of industry structure on firms. Also evolutionary economics, with notions like the path dependency of organizations and the influence of paradigms on decision-making, contributes useful observations (Teece, 1990). Organization contingency theory, and its discovery that there are many ways to organize successfully that depend on an organization's task and environment, is another base of insight (Lawrence and Lorsch, 1967; Thompson, 1967). From within management studies, finance and marketing provide many ideas. Strategic management experts have pulled parts of these other fields under one rubric to guide working managers as they look for an edge in the market place.

Moving from Long-Range Planning to Strategic Management

If organization strategy is a key to organization performance, it follows that savvy managers ought to work in a methodical way to develop sound strategies for their organizations. Too often managers have not. According to students of business practices in the 1960s, like Bruce Henderson, founder of the Boston Consulting Group, most of the time strategy was based on intuition or what worked in the past (Henderson, 1979: 7). Surely, the chances of success could be improved by embracing game plans that were based on accurate and realistic assessments of the firm's position and the opportunities open to it. Thus the search was on to find robust procedures for designing schemes to beat the competition.

Managers had earlier started to do sophisticated long-term planning; this activity was rechristened strategic planning in the 1970s to evoke the new concern with figuring out how to gain an edge in the marketplace— and more important how to keep it.[2] Strategic planning involved more than forecasting. In the new approach, planners began to ask what kinds of businesses the firm should seek to enter, and not just what the current business will be like down the road (Drucker, 1973: 122).

From strategic planning it was a small step to today's area of strategic management—with the stress on management (Ansoff et al., 1976). Managing strategy is not just a matter of plotting actions in advance, as the strategic planners soon learned. Prepared by staff or consultants who lacked operating responsibility, strategic plans often were unrealistic or without support among line managers. To be more than a paper exercise, it was realized, the long-term course of an organization could hardly be left to a planning unit alone. The plans had to percolate through the whole organization. They had to be drawn so they could be enacted, which meant among other things getting most people's approval of the proposed method of proceeding.

Strategic management gave one answer to the problem of hollow plans. Rather than being preoccupied with analysis of the firm and its environment and the formulation of strategies, the emerging subfield began to feature implementationand evaluation as critical components of organization success. These are the action and assessment phases of the strategic management process. Without effective action and assessment, planning is apt to be a ritual with little real-world impact.

Strategic management, to sum up, is a broad activity that encompasses mapping out strategy, putting strategy into action, and modifying strategy or its implementation to ensure that the desired outcomes are reached. There is a bias for action and results, and a focus on what competitors are doing and on where social and economic trends are heading. A well-formulated strategy, to quote James Brian Quinn (1980), is one that "helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents."

Criticisms of Strategic Management

Strategic management has been embraced uncritically by teachers and practitioners of management. Its sweeping approval does not mean the area is non-problematic. Strategic management has been challenged on several grounds, and the points are worth considering.

One line of criticism is the extent to which strategy can be premeditated. According to this reasoning, strategy is not always devised; sometimes it simply happens. The most important decisions in an organization may not be the big, discontinuous ones, but the day-to-day, incremental ones.[3] Strategic management, with its top-down view of organizations, is said to be based on mistaken beliefs about how people in groups behave. No matter how deliberate the executives try to be, slippage is bound to occur between intentions and actions. People lower down in the organization will do some things senior management does not want, and they will fail to do other things senior management does want. Henry Mintzberg (1994) calls the actual pattern of actions the "realized strategy" to distinguish it from the more abstract "intended strategy." Realized strategies are rarely the result of human design alone.

While skepticism is warranted, it does not follow that consciously trying to manage strategy ought to be dropped altogether. Even with less than perfect results, some deliberate planning might still be better than leaving things to chance. Also, in flagging implementation as an important matter, strategic management is moving away from a command-and-control model of strategy making, and calling attention to the political side of running organizations (Benveniste, 1989).

Perhaps a more fundamental criticism is that the idea of strategy verges on being tautological. Any organization that succeeds must have an "effective" strategy, because a defining characteristic of organization success is to follow a game plan that produces results. In contrast, a failing organization by definition has an "ineffective" strategy or else it would not be failing. These observations do not get us very far. Identifying a strategy that works is easy ex post—one simply looks to the winning or excellent companies (Peters and Waterman, 1982). The task is much harder ex ante. It is seldom clear before the fact what game plan is going to pay off for an organization.

The proof is that the history of business is filled with surprising successes and surprising failures. With hindsight, for example, anyone can see that IBM made major strategic blunders in the 1980s. The company overinvested in main frame computers, a sunset industry, and gave away to competitors its PC business, a sunrise industry. Yet at the time neither Wall Street nor the business press saw these blunders; to the contrary IBM's stock traded at record levels and the company was lauded for its strategic gifts. Time proved the conventional wisdom wrong.

Good fortune and inspiration play a large role in organization success and failure, too. No one yet knows enough about effective strategic management to model it fully (Mintzberg, 1994), making it more art than science. The extent to which the standard strategic management tools (reviewed below) really help organizations to avoid calamity, not to mention equip them to devise and carry out winning strategies, remains an open question. Empirical research turns up no clear relationship between planning and performance in corporations, though the inconsistent results of these studies may be due mostly to method factors (Miller and Cardinal, 1994).

Still, many executives, consultants, and professors feel that trying to live by the precepts of strategic management is worth the effort. While no panacea, strategic management methods may do some good and probably do little harm most of the time. They are especially useful as thinking exercises, ones that help managers concentrate their energy without losing sight of their surroundings. And since most companies—and increasingly different types of organizations—are doing strategic management, others feel they must do it too, to defend themselves.

Another criticism is that strategy has become too analytical. The formal models have led to an overemphasis on numbers, a de-emphasis on the human factor (Freeman and Gilbert, 1988: 11). Complaints are voiced that too much research in the area involves mindless quantitative analysis, with only the weakest theoretical underpinning. The how-to books treat the supervision of strategy as more mechanistic than it really is.

The subfield has tried to respond to these critical observations by introducing softer variables such as entrepreneurship, leadership, corporate culture, and organization politics. Strategy is seen as something to be negotiated, not engineered. The effort to enrich strategic management with less tangible variables, however, has generated the opposite complaint, that the whole idea of strategy is too woolly-headed to be much practical use.

Whichever side is right, the dispute over methodological rigor is not fatal to strategic management, as long as one recognizes that there are no cure-alls for organization ills, no magic bullets to guarantee organization health. The benefits of strategic management have sometimes been oversold by its advocates. The real utility of area is modest: it is primarily a way to keep the bosses on their toes and taking a long-term point of view, little more.

The Spread of Strategic Management

Despite any reservations about it, strategic management quickly took over the way business policy was taught in business schools. There are now at least a dozen (nearly identical) text books stressing strategic issues that compete for the college and MBA capstone course markets (e.g., Hunger and Wheelen 1993; Harrison and St. John, 1994; Dess and Miller, 1993; David, 1993; Higgins and Vincze, 1993; Pearce and Robinson; 1994; Thompson and Strickland, 1993; Wright et al., 1994; Shrivastava, 1994; Certo and Peter, 1995).

More important for this paper, strategic management has proved an "imperialistic" area of study and practice. People have been persuaded that the methods of strategic management can, with modifications, be applied to almost any type of organized human endeavor, not just the large-scale, for-profit sector where strategic management started. If it works for CEOs of big corporations, everyone seems to presume it must work in other domains, too. Strategic management thus has spread outward to new sectors and locations, downward to lower levels within organizations, and upward to programs and projects that embrace several organizations.

New Sectors and Sites

The pace and breadth of this "colonization" is startling. Among the novel sectoral applications made of strategic management over the past decade are:

- The public and semi-public sectors (Espy, 1986; Moffitt, 1984; Bryson, 1988; Koteen, 1991; Nutt and Backoff, 1992)

- Regulated industries (Vietor, 1989)

- Small- and mid-sized business (Pritchard, 1981; Kuhn, 1989)

- The voluntary or "third" sector (Unterman and Davis, 1984; Hay, 1990; Bryce, 1992; Buckhart and Reuss, 1993)

- The education sector (Kubr, 1982; Simerly, 1987)

- The health sector (Sheldon, 1984; Blair and Fottler, 1990)

- The church sector (Migliore et al., 1994)

Thus, for example, colleges and universities in the United States are under pressure from their regional accrediting bodies to develop mission statements and long-range plans. Professional school accreditation agencies are making similar demands on their members. An illustration is the American Association of Collegiate Schools of Business, which since 1990 has required that participating campuses do a thorough analysis of their strengths and areas for improvement, and that they put together plans that target feasible, but challenging goals in management training.

The unspoken hypothesis behind these sectoral applications of strategic management is that organizations are more alike than they are different (Bozeman, 1987). To be sure, government agencies, to take one example, are not the same as private companies (Ring and Perry, 1985). Unlike most businesses, they seldom face market competition, they rarely sell their services, they have little autonomy in personnel matters, they cannot usually decide on their own to enter new markets, they are not dependent on making a profit. Government agencies are apt to have fuzzier missions than their private sector cousins, and are thus more ambiguous to evaluate.[4]

Strategic management does not ignore these sorts of distinctions. Every sector, like every industry, has unique elements. But organization strategy is a common feature that cuts across all sectors. Every formal organization is a goal-seeking unit, set up with particular objectives and adhering to certain procedures (Goldsmith, 1994). Most of them have clients to serve, resources to mobilize, costs to keep under control. To the extent strategy is ever-present in organizations, strategic management can be relevant anywhere.

While some ways of proceeding in the commercial sector will not fit, say, private voluntary organizations, many strategic management techniques can be adjusted to be used in a range of organization settings. (Illustrations are given below, in the discussion of the strategic management tool kit.)

Besides expanding to new sectors, scholars at INSEAD, INCAE, and other non-U.S. management schools have taken strategic management into new locations, well beyond the United States economy where it started. The assumption here is that the methods have universal value, and are not bound by culture.

The *geographical* spread of the subfield includes:

- Multinational corporations (Doz, 1986; Negandhi and Savara, 1989)

- Developing countries (Kiggundu, 1989; Austin, 1990; Blunt and Jones, 1992)

The Consultative Group on International Agricultural Research (CGIAR) centers, for example, have been engaged in formal strategic planning since at least 1986. That year, the CGIAR's Technical Advisory Committee directed the centers, which are located mostly in developing countries, to align or rethink their programs. The concern was to focus attention more on long-term objectives as opposed to short-term operational matters (Ozgediz, 1990).

Strategic management may not be as effective in other locales as in the United States, but the subfield's supporters would deny that the reason is cultural bias in strategic management techniques. Strategic management sometimes may seem futile in poor countries, for instance. Turbulent socioeconomic climates and resource scarcities make it harder to stick to any organization's game plan than is true in rich countries. Rather than discrediting the strategic management approach, however, such uncertainties may make it even more critical in the developing areas to try systematically to manage strategy.

Levels of Strategy

Strategic management's spread downward to different levels and functions within organizations means strategy is no longer seen as the duty of just top executives. As one leading textbook (Thompson and Strickland, 1993: 13) puts it: "Every manager is a strategy-maker and strategy-implementer for the area he/she has authority over and supervises."

The reason for strategic management gravitating to lower-level administrators is that strategies surface at different tiers in the organization hierarchy. (See Figure 1.) At the top tier in the private sector there is corporate-level strategy that determines what businesses a company will compete in and how resources will be allocated among business units. Corporate strategic decisions include actions like mergers, acquisitions, and divestitures. Down one step is business-level strategy. This level refers to the competitive strategies of particular business units, and how the unit will compete in a given industry and position itself among its competitors. A diversified company will have many business-level strategies. (These two levels correspond roughly to ministries and bureau in the public sector.)

There also are functional strategies and operating strategies. Functional strategy concerns the managerial game plan for funding a major functional activity within a company or other organization. Operating strategies are narrower still. They concern approaches for managing key operating units (plants, distribution centers) and for handling daily tasks with strategic significance (advertising campaigns, maintenance, shipping).

Works that explore the functional uses of some ideas from strategic management include the following:
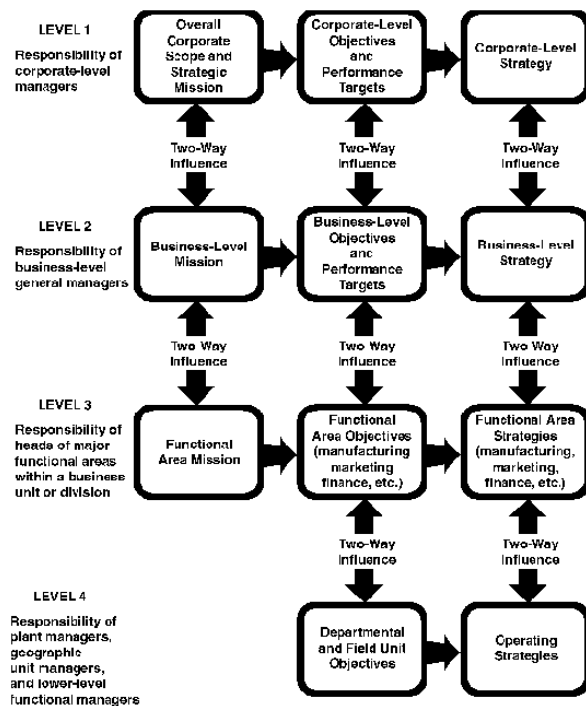
- Finance (Bierman, 1980: Bryce, 1992)

- Human resources (Odiorne, 1984)

- Marketing (Kotler and Fox, 1985)

- R&D (Bozeman et al., 1984

Johnson & Johnson is a classic illustration of a company that tries to involve middle managers in strategy, especially by getting them to critique and challenge the corporate "credo."

Project and Program Management

Strategic management also can be applied upward to projects and programs that include several identifiable organizations or their subunits (White, 1990; Brinkerhoff, 1991; Paul, 1983; Gage and Mandell, 1990; and Bernhardt, 1992). When profit-seeking companies try so-called strategic alliances they must develop plans for how to cooperate with each other and carry out joint activities. The same thing is true of public/private partnerships. Systematic methods of planning, action, and control are pertinent to any kind of multi-organization activity.[5]

Figure 1. The Networking of Missions, Objectives, and Strategies through the Managerial Hierarchy

LEVEL 1
Responsibility of corporate-level managers

Overall Corporate Scope and Strategic Mission → Corporate-Level Objectives and Performance Targets → Corporate-Level Strategy

Two-Way Influence

LEVEL 2
Responsibility of business-level general managers

Business-Level Mission → Business-Level Objectives and Performance Targets → Business-Level Strategy

Two Way Influence

LEVEL 3
Responsibility of heads of major functional areas within a business unit or division

Functional Area Mission → Functional Area Objectives (manufacturing marketing finance, etc.) → Functional Area Strategies (manufacturing, marketing, finance, etc.)

Two-Way Influence

LEVEL 4
Responsibility of plant managers, geographic unit managers, and lower-level functional managers

Departmental and Field Unit Objectives → Operating Strategies

Source: Thompson and Strickland (1993)

The Common Tool Kit

With so many applications some may wonder whether "strategy" and "strategic management" are anything more than buzzwords, convenient labels to put on everything that seems vital to an organization, a project, a policy. Are the terms so elastic they mean little that is concrete? Not always, for there remains a common set of tools that binds most of these applications together.

Writers break strategic management into five or more broad tasks.[6] Each task in strategic management needs constant evaluation and decisions whether to continue with things as they are or to make changes. None can be done once and then forgotten.

A generic task inventory is the following:

- *Mission and goals*. Understand the special purposes for which the organization exists and form a vision of where the organization needs to be headed.

- *Analysis*. Examine the external environment and internal resources.

- *Formulation*. Craft a strategy to reach the objectives.

- *Implementation*. Carry out the chosen strategy in an economical and timely manner.

- *Monitoring*. Evaluate performance and make adjustments in light of experience and changing conditions.

It should be stressed that the management of strategy is an ongoing activity, and that there is much interplay among the five generic tasks. For example, the question of what strategy to follow cannot be considered in isolation from whether the strategy can be implemented. Because the tasks are linked, a change in any task area will affect the others. The thrust of strategic management is to instill an open-minded outlook so that the necessary changes in these tasks can be made promptly.

The next five sections outline the leading methods recommended in the literature for handling the five

For this reason strategic management also has use in intergovernmental relations. If a government agency agrees to a major reform in public policy, it usually needs the help of other agencies to carry out the reform. The inability to get such help is one reason, to cite an example, that liberalization has fallen short in many developing countries. A ministry of finance or central bank may genuinely want, say, to cut subsidies and make state-owned companies obey the laws of the market. Seldom can these agencies impose their will unilaterally, and liberalization is liable to be stalled or blocked by the state-owned companies, who see greater advantage in having things stay the same. Strategic management, which offers ways to frame plans that so they meet wide approval, or at least face low opposition, thus can be brought to bear on policy reform campaigns.

Porter (1990) applies strategic management ideas to the highest level yet, using them to understand development strategies of entire nations. He tried to identify what factors allow a country to have international success in a particular industry. Porter found the answer in four attributes that shape the environment of local firms: factor conditions; demand conditions; related and supporting industries; and firm strategy, structure, and rivalry.

principal tasks of strategic management. The processes for doing these tasks, however, are often the same. Identical ways of involving people from the organization can prove useful at all steps in the strategy cycle. The relevant procedures include workshops, brainstorming sessions, training, and the establishment of management information systems, any of which can help managers fill in the checklists and typologies that are a constant theme of strategic management.

Mission and Goals

Whether an organization is working out a new strategy or reformulating an old one, it must decide its basic goals and philosophies. Organizations that do not pause to think through their raison d'être sometimes pay a heavy price. Sears, Roebuck, for example, saw its competitive position erode while it tried without success to heed a blurred mission in the 1980s. The military is particularly vulnerable to "mission creep," as happened to U.S. forces in Somalia. When the object of intervention in that country changed from humanitarian relief to cracking down on a defiant war lord, the army found itself with inadequate resources to complete its new mission.

To give a sense of direction to people in the organization, strategic management advises the drafting of a mission statement. According to Peter Drucker (1990: 3-8), such declarations of principle are just as important in non-profit organizations. The operating hypothesis is that, barring a consensus on fundamental ideals and what the organization is trying to do, resources are likely to be wasted. Because people are more apt to commit to the mission statement when they participate in making it or reviewing it, their input ought to be sought.

A model mission statement describes an organization's purpose, its customers, its products (often in functional terms, that say what need or needs are being met), and its technology (that is, how it delivers its products or services.) They are always brief. Most observers think mission statements should reflect what George Bush once dismissed as "the vision thing." In other words, attention needs to be paid to values and society's well-being as organization goals. More narrow goals, like expanding sales and maximizing profits, are thought usually insufficient by themselves to inspire people.[7]

There are lots of ways to put together mission statements. Usually top executives take the lead, at least in the early drafts. Some organizations hire outside facilitators to direct the process and help write the language. Often mission statements from other organizations are read and evaluated as background information. Through open, extended debate the mission statement is evolved, and then "sold" to the rest of the organization.

It is easy to be cynical about mission statements, to see them as pompous and insincere. In many organizations, the lofty words in these documents are not taken seriously and do become the object of ridicule. One recent study found mission statements to be more useful for PR than as an internal management tool (Baron and Walters, 1994). Yet, there are too many times when an esprit de corps, a devotion to the organization that goes beyond narrow economic concerns, proves critical to dismiss the idea of developing a formal statement of purpose.
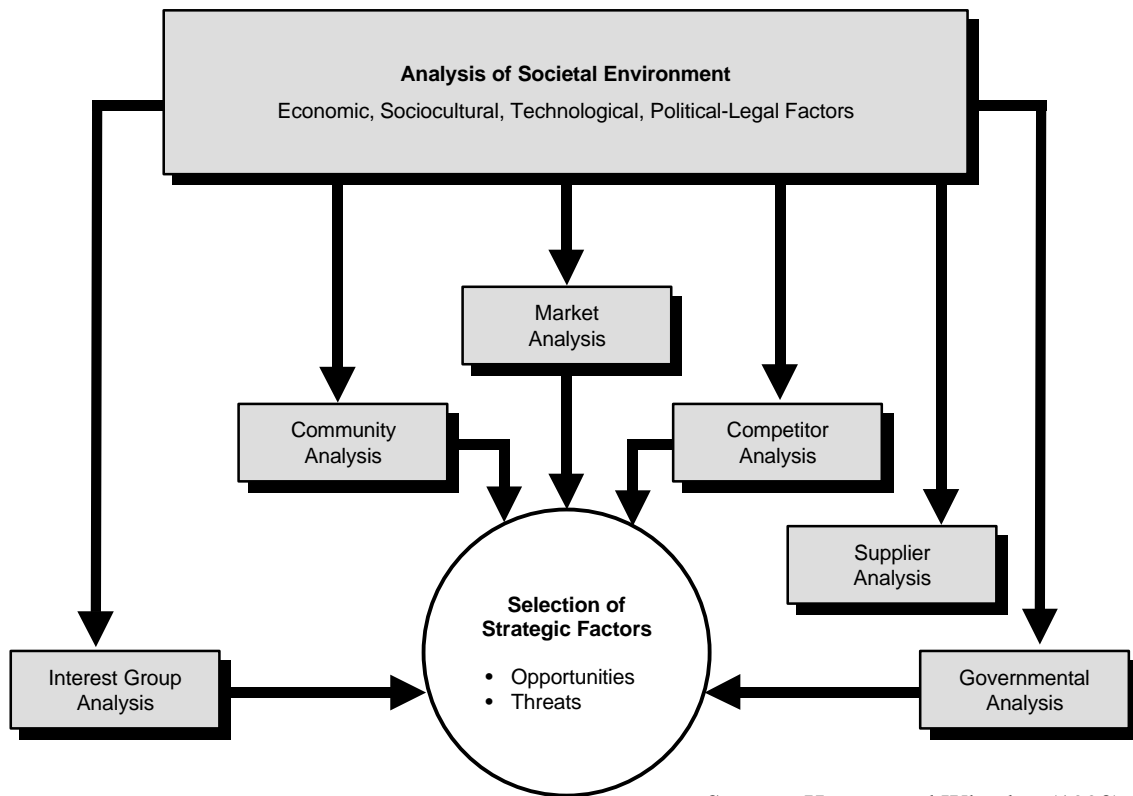
Analysis

Analysis in strategic management entails both external appraisal (often called environmental scanning) and self-examination (sometimes known as doing a strategic audit). For input in formulating specific strategies, strategy makers must search the environment for opportunities that offer important avenues of growth. They need to be on the lookout for outside threats to their well-being. But strategy makers also must identify variables within their organization that are important strengths or weaknesses. A strength (or distinctive competence) is something the organization does particularly well compared to its rivals; a weakness is the opposite, something it does relatively poorly or not at all.

The most widely used way to model the environment in the private sector is through industry analysis, as developed by Porter (1980). He contends that companies need to be concerned with the intensity of competition, which in turn is driven by five competitive forces. They include 1) the rivalry among existing competitors, 2) the threat of new entrants coming into the industry, 3) the possibility of substitute products that appear to be different but can satisfy the same need as the existing product, 4) the bargaining power of suppliers, and 5) the bargaining power of buyers. The combined power of these forces determines the profit potential in the industry (defined as a group of companies producing similar products or services). The five forces are not all equally relevant to the not-for-profit and public sectors, but they still can give insight about where a charitable or essential public service "industry" is heading.

Managers also need to scan other aspects of the environment, including changes in public policy, interest group activities, and larger socioeconomic trends, as illustrated in Figure 2. The objective is to identify the important openings and challenges.

Figure 2. Scanning the External Environment


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          Analysis of Societal Environment
   Economic, Sociocultural, Technological, Political-Legal Factors

                     Market
                     Analysis

     Community                      Competitor
     Analysis                       Analysis

                                         Supplier
                                         Analysis
              Selection of
              Strategic Factors
   Interest Group    • Opportunities      Governmental
   Analysis          • Threats            Analysis
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Source: Hunger and Wheelan (1993)

The most popular way to structure an internal examination is portfolio matrix analysis. The technique involves analyzing each of a firm's several product lines as elements in a portfolio of investments. A portfolio matrix (or business screen) is a two-dimensional display comparing the strategic positions of a diversified company's activities. The matrix gives a simple, visual way of choosing investment priorities.

The best-known matrix was developed in the 1960s by the Boston Consulting Group for diversified corporations. According to the theory behind this matrix, two factors predict whether a business will produce or use cash: the market growth rate, and its share of the market. Thus, firms ought to look for a balance among cash-users and cash-producers, and should invest its resources accordingly.[8] To make the matrix, each of a firm's businesses is plotted according to these two factors. The businesses are drawn as "bubbles," the size being proportionate to revenues.

Portfolio analysis has applications in the public sector, though the parallels may not be obvious. Many government organizations are in multiple businesses that are onl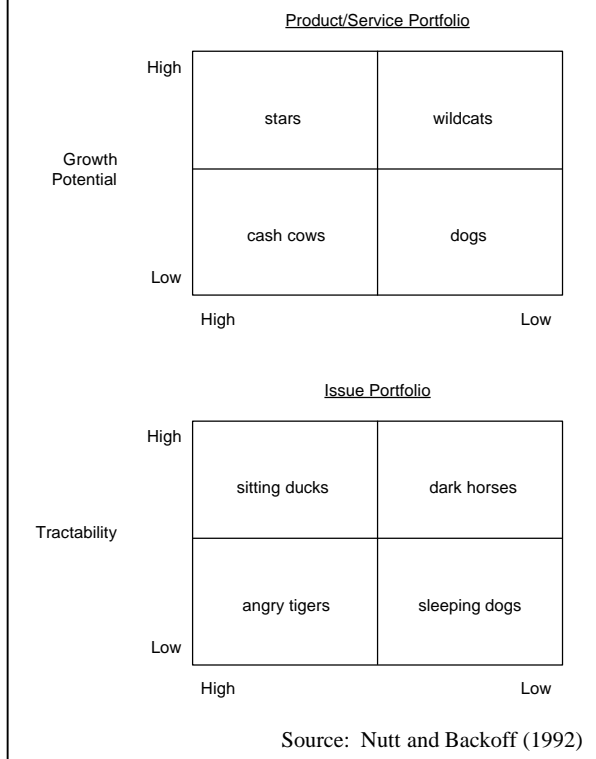y marginally related. Resources must be allocated among these unrelated businesses. Thus public managers, in effect, make portfolio decisions. An example of a public sector portfolio is given in Figure 3.

Environmental scanning and self-examination are frequently joined and called SWOT analysis, an acronym standing for an organization's key internal strengths and weaknesses and its external opportunities and threats.[9] (See Figure 4.) SWOT analysis forces managers to grasp the current situation they face by listing and ranking internal and external factors. The idea is to look for fits between abilities and opportunities while working around weaknesses and threats. SWOT analysis is best done in groups, to draw out the largest number of factors so they can be winnowed for the most important ones.

Formulation

Strategy formulation is hard to separate from the preceding tasks; it blends into the development of missions and goals, environmental scanning, and internal auditing. A workable strategy has to build on the output of these other tasks. Thus there are few

Figure 3. Public and Private Sector Portfolios

Product/Service Portfolio

	High	Low
High	stars	wildcats
Low	cash cows	dogs

Growth Potential (vertical axis: High to Low)
Horizontal axis: High to Low

Issue Portfolio

	High	Low
High	sitting ducks	dark horses
Low	angry tigers	sleeping dogs

Tractability (vertical axis: High to Low)
Horizontal axis: High to Low

Source: Nutt and Backoff (1992)

methods that are used just for putting together long-range game plans.

One partial exception is stakeholder analysis. Stakeholders are influential groups and individuals, both inside and outside an organization (Mitroff, 1983). They are an organization's chief constituencies, who can affect its actions in significant ways. Without a "buy-in" from stakeholders, so they feel a sense of ownership of a chosen approach to the future, strategies are prone to falter (Freeman, 1984).[10] An example is the fate of Michail Gorbachev's perestroika scheme for the Soviet Union in the 1980s, which got nowhere due to opposition from vested interests within the Communist Party.

To analyze stakeholders, strategic management recommends constructing a blank chart with column headings such as power, priority given, needs/demands, and strategies. Specific stakeholders are listed for each heading and entries are made for every cell in the chart. This information is meant to be used to figure out the best way to marshal and guide the organization's potential supporters. (See figure 5.)

Stakeholder analysis will provide answers to questions such as the following: Which stakeholders does the

firm depend on for survival? Who among the stakeholders wins, who loses, from a given strategy? Who has been left out? Who can be left out without too much damage? What needs to be done to ensure support of the critical groups?

Stakeholder analysis may uncover strategies the organization is already pursuing that simultaneously serve the interests of several important stakeholders. It also may suggest several paths to the same ends, some of which mollify more stakeholders. The hope is to create win-win situations, or at least to lessen the pain when a strategy is chosen so that no one blocks its implementation. While stakeholder analysis always seems important, it seems vital in the public sector due to government's multiple official constituencies. The point is to make sure that planning does not take place in a vacuum.

Implementation

Implementing strategy is critical. It was on this task that strategic planning foundered. Organizations seldom find executing plans, even well-laid plans, as easy as they thought it would be. People responsible for the actions may pursue their agendas instead, or they may not understand fully their responsibilities, or they may lack the skills that are required to enact the plan.

Implementation has two main aspects, one formal, the other informal: they are organization structure (the defined relationship among personnel) and organization culture (the style of leadership and the pattern of shared values). Once a strategy has been prepared, an official structure must be developed that will permit the organization to carry out the strategy.(endnote) Less tangibly, the organization probably also needs leadership and a common underpinning of values for it to have strategic success.

The stock of structures to pick from is borrowed from organization theory. Most organized groups are shaped like pyramids, often divided into economic functional areas, product areas, or geographic areas. Some organizations also experiment with matrix structures (with simultaneous authority over line or staff employees by both a project manager and a functional manager.) Network structures are another possibility. They eliminate many in-house functions, replacing them with long-term contracts and "strategic alliances." Figure 6 shows how matrix and network structures look. There are lots of hybrid structures, too, some more centralized, some less so.

Figure 4.   SWOT Analysis -- What to Look for in Sizing up a Company's Strengths, Weaknesses, Opportunities, and Threats

Potential Internal Strengths

- Core competencies in key areas
- Adequate financial resources
- Well thought of by buyers
- An acknowledged market leader
- Well-conceived functional area strategies
- Access to economies of scale
- Insulated (at least somewhat) from strong competitive pressures
- Proprietary technology
- Cost advantages
- Better advertising campaigns
- Product innovation skills
- Proven management
- Ahead on experience curve
- Better manufacturing capability
- Superior technological skills
- Other?

Potential Internal Weaknesses

- Obsolete facilities
- Obsolete facilities
- Subpar profitability because…
- Lack of managerial depth and talent
- Missing some key skills or competencies
- Poor track record in implementing strategy
- Plagued with internal operating problems
- Falling behind in R&D
- Too narrow a product line
- Weak market image
- Weak distribution network
- Below-average marketing skills
- Unable to finance needed changes in strategy
- Higher overall unit costs relative to key competitors
- Other

Potential External Opportunities

- Serve additional customer groups
- Enter new markets or segments
- Expend product line to meet broader range of customer needs
- Diversify into related products
- Vertical integration (forward or backward)
- Falling trade barriers in attractive foreign markets
- Complacency among rival firms
- Faster market growth
- Other?

Potential External Threats

- Entry of lower-cost foreign competitors
- Rising sales of substitute productsS
- Slower market growth
- Adverse shifts in foreign exchange rates and trade policies of foreign governments
- Costly regulatory requirements
- Vulnerability to recession and business cycle
- Growing bargaining power of customers or suppliers
- Changing buyer needs and tastes
- Adverse demographic changes
- Other?

Source: Thompson and Strickland (1993)

Research finds that structure usually follows strategy (Chandler, 1962). There is no one best way to configure an organization. Instead, managers try to design an organization's architecture so it corresponds to current long-range plans. As those plans change, so must the arrangement of offices and the reporting channels. Thus, for example, when large corporations today refocus on core businesses and try to increase efficiency, they typically chose to "delayer" and "downsize" (get rid of middle managers and workers). These efforts to simplify structure reflect strategic judgments about how to stay competitive in global markets. Similar forces are at work in the public sector, leading to privatization and other attempts to restructure government organizations.

Figure 5. Strategies for Dealing with Stakeholders in the Operating Environment

You may find the following application useful in analyzing stakeholders in the operating environment of organization. Follow these steps:

Step 1: Construct a blank chart with column headings like the chart in the example below.

Step 2: List specific (if possible) stakeholders for each of the headings found in the far left column.

Step 3: Determine the power of each stakeholder by considering the stakes of each, the type of influence they possess, their potential for threat, their potential for cooperation, and whether the organization is highly dependent on them. Obviously, if a stakeholder (i.e., union) does not exist, it does not have any power.

Step 4: Determine the priority that the organization should give each stakeholder. The priority given depends on the Power of stakeholders, as identified in Column 2, the personal value systems of the Managers and the Mission of the organization, and the specific Situation of the organization, including its Industry (PMSI). The high priority given to customers is almost universally accepted;

however, you may need to reduce this priority of you think a "high" is inappropriate given the specific circumstances of the organization.

Step 5: List the needs and likely demands of each stakeholder. Several illustrations of the types of needs and demands you may want to include are listed in the example. None of these lists are intended to be complete. You can find many more examples.

Step 6: Determine the strategies the organization is already using for dealing with the needs and demands of each stakeholder. then, starting with high priority stakeholders, determine what the organization should begin doing to better satisfy these stakeholders, so that they do not become a stumbling block as the organization pursues its other objectives.

Step 7: List the goals that the organization has in common with each stakeholder. Again, the examples listed below are simply illustrative of the types of things you might list.

Step 8: Determine the strategies the organization is already pursuing to accomplish simultaneous goal achievement. Finally, look for new opportunities to add to this list.

Stakeholder	Power	Priority Given	Needs/Demands	Strategies for Dealing with Demands	Common Goals	Strategies for Facilitating Common Goal Achievement
Customers	High	Typically High	Excellent products and services; safety; many choices; low prices; truth in advertising	Compliance within rational limits and recognizing tradeoffs; seek new customers/markets; stimulate demand; long-term contracts	Excellent products and services; safety	Involvement of customers on design teams and in product testing; direct contract with customers through surveys, feedback cards accompanying products
Suppliers	Low to High	Depends on PMSI (see above)	Steady demand; high demand; high prices for supplies; timely payment	Encourage competition among suppliers; sponsor new supplier; vertically integrate; long-term contracts; purchasing coalition with other buyers; buy supplier's stock	Efficient transfers; timely order information; excellent products; new applications for products and services	Integration of ordering system with manufacturing; improved communication; involvement on product design teams; coordinated quality control; tap for suggestions of new products and services
Local Communities	Low to Moderate	Depends on PMSI (see above)	Employment; preservation of environment; strong local economy; philanthropy; fees and taxes	Involvement in community service and politics; local purchases of supplies; employment of local workers; donations to government organizations and charities; gifts to government officials (where legal)	Well-trained workforce; attractive community	Social partnerships such as task forces to work on skilled-labor shortages or urban renewal; cooperative training programs; employment of laborers with special needs such as the handicapped
Activist Groups	None to Moderate	Depends on PMSI (see above)	Depends on group; some goals include protection of civil liberties; advancement of particular groups and ideals; protection of wildlife and the environment	Conformance within rational boundaries without totally sacrificing other goals; seek counsel when making decisions; political/public relations efforts to offset negative impact of bad publicity; financial donations	Protection of nonrenewable resources; safety of employees; sometimes activists interests are closely aligned with the personal value systems of managers or other stakeholders	Joint ventures/research consortia: appointment of group representative to board of directors; joint public relations efforts

Unions	None to High	Depends on PMSI (see above)	Higher wages; more benefits; better working conditions; security; fair treatment of employees	Professional union negotiators; labor contracts; joint industry labor panels; labor leaders on boards of directors; Chapter XI protection; elimination of union	Motivated and productive workforce; growth in revenues; safety	Mutually satisfactory labor contracts (win-win situations); contract clauses that link pay performance, profit sharing; joint committees on safety and other employee issues
Financial Intermediaries	None to High	Depends on PMSI (see above)	Creditworthiness, including high liquidity, low leverage, and high positive cash flow; timely payments; high interest	Compliance within rational limits and recognizing tradeoffs; encourage competition among alternative financiers; disclosure of records	High quality management decisions leading to high profits and low risk	Appointment of creditor representatives to board of directors; creation of creative financing solutions; friendly contacts with other clients of creditor

Source: Adapted from Harrison and St. James (1994)

Now, however, some companies are thinking twice about the wisdom of "lean and mean" designs, which may have left them too thin to respond to economic upturns (Hamel and Prahalad, 1994). Not surprisingly, large mergers are becoming more common again after a slide in the early 1990s. Analogously, critics are questioning whether the effort to "reinvent" government has gone so far that important public services are foregone, which suggests that new types of public and private partnerships are in the offing, too (Kettl, 1993). We will continue to see experiments in organization structure throughout the economy triggered by changes in mission and strategy.

The exercise of leadership and the use of corporate culture for implementation build on insights from the field of organization behavior. Managers need to manipulate symbols (and tangible rewards, too) to motivate individuals for collective goals. They also often attempt to oversee the group's cherished beliefs so these values support the chosen strategy.

Weak leadership (an obsession with the rule book) and low-performance cultures (the "bureaucratic mentality") are thought to be special obstacles in public sector organizations. Strategic management urges public administrators to think more like entrepreneurs and to try to foster a climate of productivity and responsiveness in their organizations. To convey this message simulation exercises and case study discussions are popular vehicles.

Monitoring

The task of strategic monitoring ought not be forgotten. Poor decisions can inflict penalties and be hard to reverse. Thus timely appraisals are important to alert managers to problems before they get out of

hand. The famous Comilla rural development project in Bangladesh, to take but one positive example, succeeded because of its commitment to learning from its mistakes (Uphoff, 1986: 195). Monitoring strategy has two basic activities: 1) comparing expected results with actual results; 2) taking corrective action to make performance conform to plans.

In comparing results, managers often engage in gap analysis. Where is the organization falling short? To do a good gap analysis managers must have access to historical, current, and forecast data, which in turn requires solid reporting procedures (managerial accounting and management information systems). It also is important to think through the measures of success, recognizing that all measures create distortion as people within the organization succumb to "goal displacement"—the measures of success get confused for success itself. Managers must be careful to minimize perverse incentives that stress measured goals at the expense of more important, but unmeasured ones.

When gaps are found between goals and performance, steps must be taken to reposition the organization so it can operate better in the future. It may need to revise its mission, restructure itself, or take other measures to keep on track. The monitoring task in strategic management thus feeds back on all the other tasks, and is the strategy cycle's self-correction mechanism.

Figure 6. Matrix and Network Structures

Matrix Structure

Network Structure
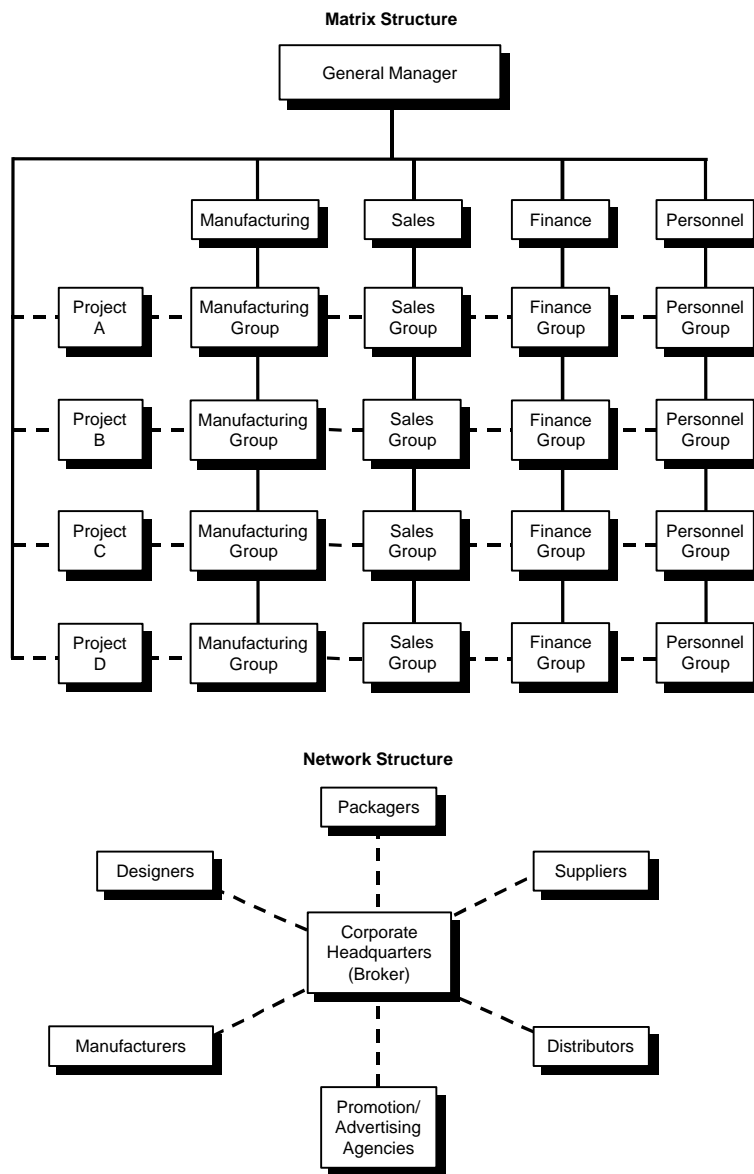
Source: Hunger and Wheelan (1993)

appealing to all kinds of managers because it is a way to try to get consistent, comprehensive, and longer-term thinking into their decision making so they can cope with these challenges.

The techniques used to improve decision making are highly uniform across the range of sectors and industries. Strategic management has yet to evolve distinct approaches, and relies on a compact tool box of methods for handling the planning, implementation, and evaluation phases of the strategy process. According to the field's proponents, these few methods can be used, with minor adjustment, anywhere to get managers to think and act more strategically, to prevent their organizations from wandering aimlessly.

The strategy area of study is rightly criticized for putting too much stress on big decisions and actions in the front office. Yet there is utility in strategic management, too. The feasible paths for any organization are not unlimited. Strategic management, with its integration of analysis and action, would appear to aid managers in finding the better paths to follow, and in avoiding the less promising ways of proceeding. This, in the end, is why the area has spread so quickly, and why, with proper caution, it is worth studying and using for many organized endeavors.

Conclusions

This literature review has documented that strategic management, like most applied bodies of learning, is eclectic. Its techniques, which are built on social science and management disciplines, have caught on among a broad mix of managers in many organization settings. A major reason is the uncertain environment facing most organizations at the end of the twentieth century, an environment often marked by declining income, intense competition, quick technological change, and shifting demand for their goods and services. Strategic management is

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ENDNOTES

[1]   Since the publishing of the Schendel and Hofer (1979) book, summarizing the views of many leading figures, most schools have switched the title of these courses from "business policy" to strategic management."

[2]   The journal *Long-Range Planning* appeared in 1968.

[3]   Lindblom (1959) made this same point about policy-making in government in his classic article, when he asserted that decisions are not the result of an orderly, controlled process, but ar more an issue of "muddling through." See also Allison's (1971) important book on different models of how policy gets made, which critiques the monolithic, rational actor paradigm.

[4]   A good summary of why strategic management is different in public organizations is chapter 2 in Nutt and Backoff (1992). A survey of the use of strategic management approaches in state agencies is Wechsler and Backoff (1986). Also see Osborne and Gaebler (1992).

[5]   White (1987) notes strategic management is but one of several ways of trying to manage development programs. Still, to the extent strategic management is inclusive, with an appetite for ideas pioneered in other disciplines, the boundary between it and other approaches to management is not fixed.

[6]   Crosby (1991), for example, breaks the strategic management process into nine steps. This is not a significant difference from the five-task model presented here. The fewer tasks are obtained by collapsing several of the nine steps.

[7]   Not all mission statements are stately, however. Honda, when faced with a strong challenge from Yamaha to be the world's leading motorcycle maker, offered the following mission: "We all crush, squash, slaughter

[8]   The Boston Consulting Group strategy matrix has fallen into disrepute for giving the wrong advice, and among other problems encouraged ill-considered mergers and conglomeration of firms (Krugman, 1984: 252-53).

[9]   For a how-to guide to SWOT analysis in the public sector see Bryson (1988: 122-38).

[10]   Stakeholder theory emerged from social science analysis of business organizations, which suggested that the firm could be better understood as a form of community rather than as property. The seminal work on this subject is March (1962).